MILITARY EQUIPMENT VALUATION & ACCOUNTABILITY

KNOWLEDGE. CONFIDENCE. TRUST.

Military Equipment Valuation:

Where Are We Now?

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Office of the Under Secretary of Defense
(Acquisition, Technology and Logistics)

Outline

- **Introduction to Military Equipment Valuation (MEV)**
  - The What and Why of MEV
  - Military Equipment Defined
- **Where We've Been**
  - Developing the Historical Baseline Valuation
- **What's Coming Up in the Near Term**
  - FY06 Baseline Update Process
  - Management Assertion for the MEV Baseline
- **Beyond FY06**
  - Baseline Maintenance & New Programs
  - New Policies, Procedures and Guidance
  - Increment 2 Strategy
- **Help Along the Way**
  - Training and Resources
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Introduction to Military Equipment Valuation (MEV)

The What and Why of MEV

- **A process to implement the 2003 Federal accounting standard, a standard that requires military equipment (including modifications and upgrades) to be properly valued, capitalized, and depreciated**
- **Why is MEV important?**
  - To provide reliable and accurate information to decision makers
    - Total acquisition cost of assets will be consistently determined
    - Decision makers will get comparable information over time and between programs
    - It will allow better investment planning for replacements
  - To increase public trust and confidence

"We owe the taxpayers no less than a private company would to its investors in being able to account for their money."

-Linda M. Springer, OMB

What is the Legislative and Policy Basis?

- **Chief Financial Officers Act of 1990, as amended**
- **Federal Financial Management Improvement Act of 1996**
- **OMB Circular A-134, Federal Accounting Principles and Standards**
- **OMB Circular A-136, Financial Reporting Requirements**
- **OMB Bulletins 01-09 and 01-02**
- **Federal Accounting Standards Advisory Board (FASAB), Statements of Federal Financial Standards (SFFAS) Number 6, "Accounting for Property, Plant, and Equipment"**
- **President's Management Agenda**

Military Equipment Defined

- **Military Equipment is defined as Tangible assets that:**
  - Have an estimated useful life of 2 or more years;
  - Are not intended for sale;
  - Are intended to be used or available for use in the performance of military missions, to include equipment used in training; and
  - Are valued at $100,000 or more ($50,000 for vehicles)

- **Examples of Military Equipment:**
  aircraft, ballistic missiles, communications and electronic devices and systems, satellites, combat ships, support ships, and combat vehicles

The Problem

- **Policies and Business Rules for valuing ME are not in place, e.g.,**
  - Defining Military Equipment
  - Distinguishing from “general property and equipment?
  - Establishing “value”
  - Determining useful life

- **Existing systems (acquisition, logistics and financial) were not designed to value and depreciate Military Equipment**

Needed Actions

- **Establish Polices, Procedures, and Guidance**
  - Standardize the valuation and accounting treatment for military equipment
- **Complete Initial Valuations of Military Equipment Baseline**
  - 1,105 military equipment acquisition programs
- **Deploying Enterprise-Wide Capability**
  - Capital Asset Management System – Military Equipment (CAMS-ME)

Military Equipment Valuation

Where Are We Now?

Where We've Been

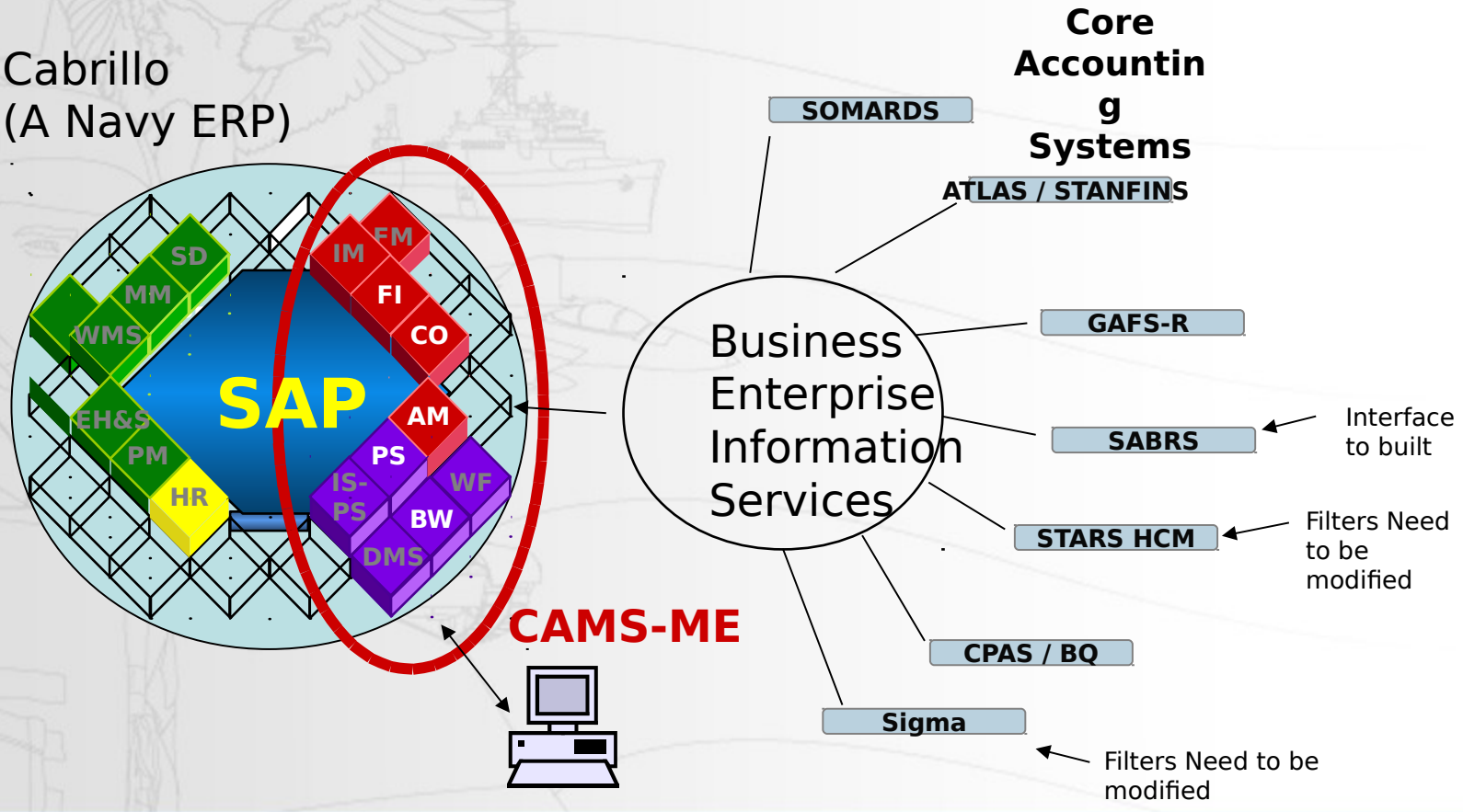
Establishing the FY06 Historical Baseline

- **Over the past three years, OSD P&E Policy Valuations Team has been visiting PM Offices to gather military equipment program information to:**
  - Complete the *initial baseline valuation;* or
  - Issue a *permanent waiver* (does not meet criteria for military equipment); or
  - Issue a *temporary waiver* (not yet in production)
- **Since all programs were not valued at the same time…we needed a process to bring them up to the same point in time**

Hence…The FY06 Baseline Update Process!

The System Solution

**Capital Asset Management System – CAMS-ME (Work in Process, Va
Fixed Asset Reporting)**



What's Coming Up in the Near Term

FY06 Baseline Update Process

Purpose: Establish program balances that are current as of the end of FY2006

The Three Main Areas of the FY06 Update to the Baseline Programs:

- Obtain program Expenditure Information (automated)
- Obtain updated Asset Delivery and Disposal Information (web-based tool)
- Obtain a more accurate Estimated Average Cost based on supplementals and budget changes

The Expenditure Information, Asset Delivery and Disposal Information, and the Estimated Average Cost must be completed to achieve a:

- "Soft" Close (6/30/06) - Test procedures, processes, and system requirements
- "Hard"Close (9/30/06) - Year-end

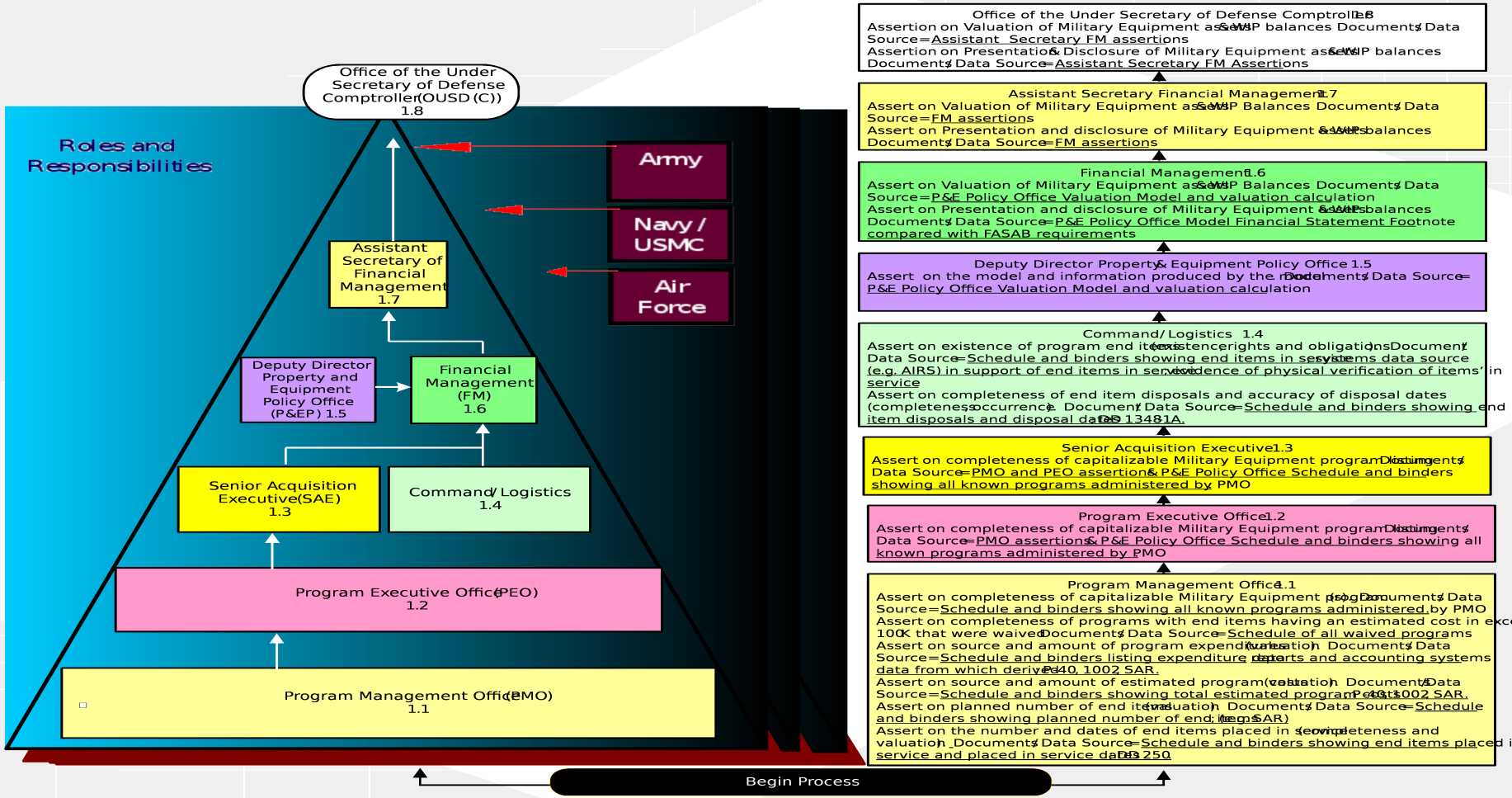
Management Assertion on MEV Baseline

Management Assertion equates to making a statement about 5 things:

1. **Existence (LOG)**
   That the military equipment reported by the DoD does in fact exist
2. **Completeness (PM/PEO/SAE/DAE)**
   Regarding the PP&E line item on the balance sheet, that everything that should be reported has been recorded and reported
3. **Rights and Obligations (PM)**
   That the Service reporting the item does in fact have rights to (e.g., "owns") the equipment
4. **Valuation (OSD Property and Equipment Policy Office)**
   That the items have been valued in accordance with Federal Accounting Standards or Generally Acceptable Accounting Standards
5. **Presentation and Disclosure (FM)**
   That the information is presented accurately on the financial statement. *(Note that this includes a narrative discussion that must be included in footnote. A financial statement is not complete without the footnote)*

Valuation is affected by 1 and 2 –
If 1 and 2 are incorrect, the values reported will be incorrect!

Management Assertion Roles & Responsibilities


Roles and Responsibilities
Office of the Under Secretary of Defense Comptroller (OUSD (C)) 1.8
Army
Navy / USMC
Air Force
Assistant Secretary of Financial Management 1.7
Deputy Director Property and Equipment Policy Office (P&EP) 1.5
Financial Management (FM) 1.6
Senior Acquisition Executive (SAE) 1.3
Command / Logistics 1.4
Program Executive Office (PEO) 1.2
Program Management Office (PMO) 1.1
Begin Process
Office of the Under Secretary of Defense Comptroller 1.8
Assertion on Valuation of Military Equipment assets & WIP balances Documents / Data Source = Assistant Secretary FM assertions
Assertion on Presentation & Disclosure of Military Equipment assets & WIP balances Documents / Data Source = Assistant Secretary FM Assertions
Assistant Secretary Financial Management 1.7
Assert on Valuation of Military Equipment assets & WIP Balances Documents / Data Source = FM assertions
Assert on Presentation and disclosure of Military Equipment assets & WIP balances Documents / Data Source = FM assertions
Financial Management 1.6
Assert on Valuation of Military Equipment assets & WIP Balances Documents / Data Source = P&E Policy Office Valuation Model and valuation calculation
Assert on Presentation and disclosure of Military Equipment assets & WIP balances Documents / Data Source = P&E Policy Office Model Financial Statement Footnote compared with FASAB requirements
Deputy Director Property & Equipment Policy Office 1.5
Assert on the model and information produced by the model Documents / Data Source = P&E Policy Office Valuation Model and valuation calculation
Command / Logistics 1.4
Assert on existence of program end items (existence, rights and obligations) Documents / Data Source = Schedule and binders showing end items in service, systems data source (e.g. AIRS) in support of end items in service, evidence of physical verification of items' in service
Assert on completeness of end item disposals and accuracy of disposal dates (completeness, occurrence). Documents / Data Source = Schedule and binders showing end item disposals and disposal dates DoD 13481A.
Senior Acquisition Executive 1.3
Assert on completeness of capitalizable Military Equipment program Documents / Data Source = PMO and PEO assertions & P&E Policy Office Schedule and binders showing all known programs administered by PMO
Program Executive Office 1.2
Assert on completeness of capitalizable Military Equipment program Documents / Data Source = PMO assertions & P&E Policy Office Schedule and binders showing all known programs administered by PMO
Program Management Office 1.1
Assert on completeness of capitalizable Military Equipment (existence) Documents / Data Source = Schedule and binders showing all known programs administered by PMO
Assert on completeness of programs with end items having an estimated cost in excess of 100K that were waived Documents / Data Source = Schedule of all waived programs
Assert on source and amount of program expenditures (valuation) Documents / Data Source = Schedule and binders listing expenditure data, reports and accounting systems data from which derived DoD 7000.14, 1002 SAR.
Assert on source and amount of estimated program (valuation) Documents / Data Source = Schedule and binders showing total estimated program costs DoD 7000.14, 1002 SAR.
Assert on planned number of end items (valuation) Documents / Data Source = Schedule and binders showing planned number of end items SAR)
Assert on the number and dates of end items placed in service (completeness and valuation) Documents / Data Source = Schedule and binders showing end items placed in service and placed in service dates DoD 7000.14, 250

Military Equipment Valuation

Where Are We Now?

Beyond FY06

Baseline Maintenance & New Programs

- **Maintenance to the Baseline**
  - Quarterly updates of the asset information (i.e. additions and disposals)
  - Annual updates to financial account codes (FACs)

- **Additions to the Baseline**
  - New or waived programs
  - New major modifications

New Policies, Procedures and Guidance

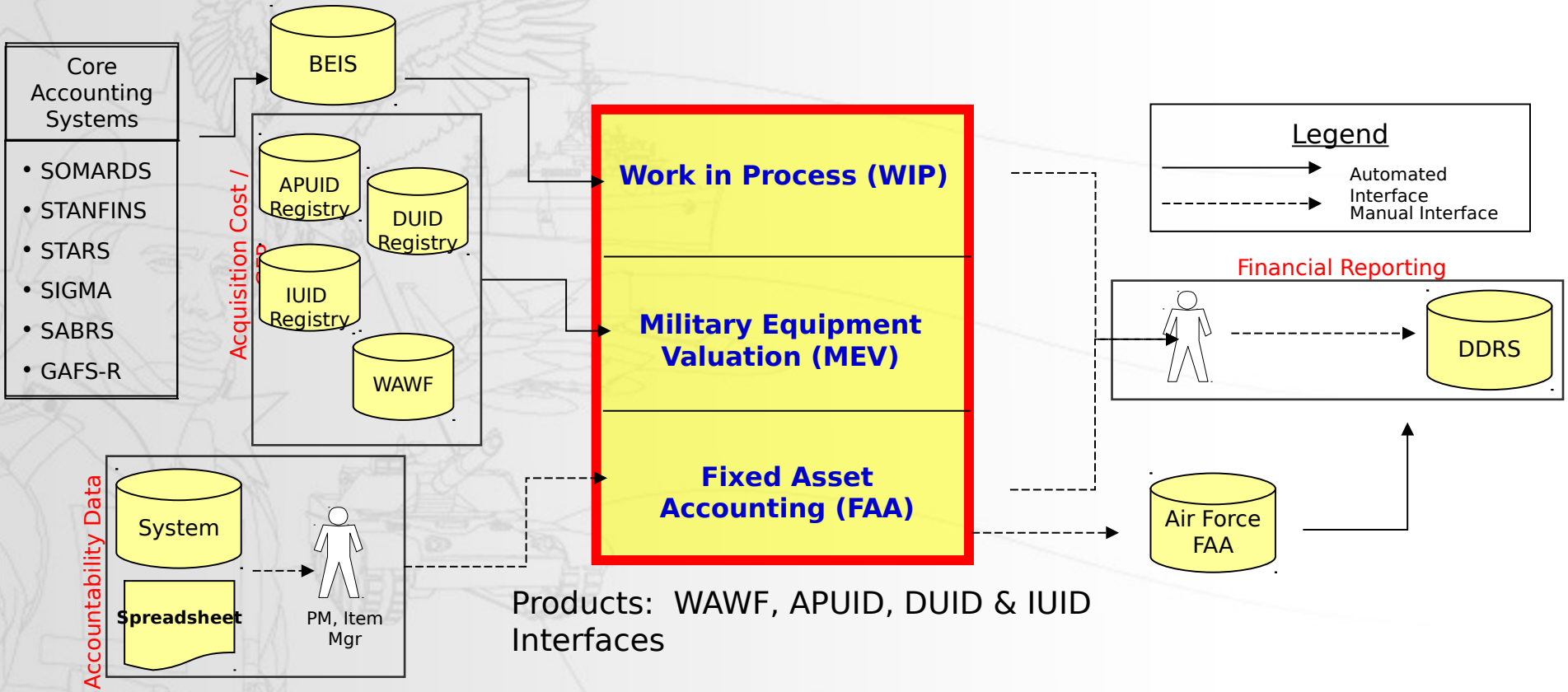
- **Acquisition Program Structuring**
  - Identify the following deliverables:
    - The end item(s) meeting the unit cost thresholds;
    - The government furnished property that will be included in the end item(s);
    - Other deliverables that will accompany the end item (e.g., manuals, tech data, etc.); and
    - Other types of deliverables that will be bought with program funding (e.g., initial spares, support equipment, special tooling and test equipment, etc.), but that cannot be directly attributed to a specific end item.
  - Program description should be consistent with the Program Work Breakdown Structure

New Policies, Procedures and Guidance

- **When structuring a Demand Requisition (I.E. Procurement Requests, Purchase Requisitions, Military Interdepartmental Purchase requests (MIPRS), each type of asset or expense will be separated as a different line item on the requisition**

- **In proposals, solicitations, contracts, and/or orders determined to be for or related to the acquisition of military equipment, each type of item or service that will receive a separate or different accounting treatment shall be set forth in either a separate contract line or subline item**

Increment 2 Strategy



Products: WAWF, APUID, DUID & IUID Interfaces

Embedded Elements

- **APUID – Acquisition Program UID**
  - Ties Expenditures to Acquisition Program and identifies Appropriate Work In Process (WIP) Account
- **Asset Type**
  - Identifies Military Equipment as appropriate
- **DUID – Demand UID**
  - Provides relationship with Asset type and APUID for Contract Line Items (CLINS) and Subline Items (SLINS)
- **IUID – Item UID**
  - Provides relationship to delivered Military Equipment Items
    - Relieving of WIP
    - Establishment of Fixed Asset and Deprecation
    - Identifies embedded Government Furnished Material (GFM)

Military Equipment Valuation

Navy Role for PMs & PEOs

Help Along the Way

Training & Resources

- **Revised MEV Website to be launched early Dec 05 to replace current website (http://www.acq.osd.mil/me)**
  - News & Events
  - Reference documents
  - CAMS-ME Help Desk
  - MEV Overview
  - MEV Guidebook (Jan 06)

- **Training will be provided beginning in Apr 2006**
  - CAMS-ME Users
  - Baseline Asset Disposition
  - Management Assertion
  - Process Changes
  - Increment 2 CAMS-ME Users

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Summary

Summary

- **You have a very important role in valuing military equipment**
- **All communities need to work together to make this happen!**
- **This has never been done before…**